THE NEW ENGLISH CURRENCY NOTES

One of the most interesting developments in England that may be definitely traced to the outbreak of the war is the appearance of the currency notes. So different are these pieces of paper from the forms of money hitherto used in the country and so great are the possibilities of their influence on the monetary habits of the English people, that a recent writer has referred to the event as "the currency revolution."[1] Such a designation may be extreme, but the new form of money is of great immediate interest and may be far-reaching in its permanent effects.

For nearly one hundred years there have been no small notes used in England. In 1826 there was passed by Parliament an act which made it a penal offense to make, issue, publish, utter, or negotiate any note of a denomination less than £5, and the famous act of 1844 conferred upon the Bank of England an almost complete monopoly of the privilege of note issue. The result of these two pieces of legislation has been that notes of the Bank of England have been almost the only paper money used and that they have been issued only in denominations of £5 or higher. The government did not issue its own promises to pay for use as money, and as £5 notes are not of low enough denomination for general use by the public, the media of circulation have been (1) checks, (2) a limited number of Bank of England notes, and (3) gold, silver, and minor coins. Most of the bank notes have been held as reserve in the vaults of the joint stock banks. Even gold coin has been used only to a limited extent. As one writer, Mr. J. M. Keynes, has recently expressed it: "The uses of gold coin in Great Britain are now three—as the medium of exchange for certain kinds of out-of-pocket expenditure, such as that on railway traveling, for which custom requires cash payment; for the payment of wages; and to meet a drain of specie abroad."

This was the situation until the outbreak of the war last summer. The demand for gold at that time and the difficulties experienced by those who tried to secure it are so widely known that only a

[1] H. J. Jennings, in the *Nineteenth Century and After*, November, 1914.

reference to the matter is necessary here. To meet the situation in England several very important steps were taken, among which was the decision to make use of government notes in small denominations.

The plan adopted to get these notes into circulation was as follows: An act known as the Currency and Bank Notes act was passed. Under its provisions "currency notes" were issued through the Bank of England "to bankers as and when required up to a maximum limit not exceeding, in the case of any bank, 20 per cent of its liabilities on deposit and current accounts." Notes were in this manner furnished to the Scottish and Irish banks of issue, the Post-Office Savings Bank, trustee savings banks, and other banks, all such issues being viewed as an advance to the bank and bearing interest at the current bank rate. The Treasury was secured by a floating charge on the assets of the bank up to the amount of the notes issued. Repayment by the bank at any time was permitted, and renewals of amounts repaid were provided for. The notes were issued in denominations of £1 and 10 shillings. In England and Wales they were to be utilized by the banks in meeting their obligations to the public and so pass into general circulation. In Scotland and Ireland, where bank notes of small denomination were available, the currency notes instead of being issued to the public were to be used as cover for the banks' own notes.

Provision was made also for banks that did not require currency but did need credit, by arranging for the issue of certificates in lieu of actual notes, these credits being allowed on the same terms as the notes. Scottish and Irish banks could use the certificates as cover for their own note issues in the same way as they used the notes. Through this device some of the expense of printing and handling notes was saved.

As the notes would pass into the hands of the public many of them would necessarily return in a short time to the Bank of England, either directly or through the banks. If returned to the Bank of England by the bank to which they were originally issued, their return would, of course, relieve the bank of liability. If returned by some other party than the bank originally receiving them, this would not occur, and some other means of relieving the bank of

the liability had to be provided. This was done by the very simple device of allowing a bank that had received notes to make repayment merely by establishing a credit account at the Bank of England, either by discounting bills or by depositing cash, and then applying this credit in payment of advances. The sums thus received by the Bank of England are then applied forthwith to canceling any currency notes that have been returned from circulation or, if in excess of such notes returned, are "carried to a separate account in the books of the Bank of England and applied to the cancellation of notes as and when they return from circulation."

Table I indicates the way in which these note issues were handled. The first column shows the total amount of notes outstanding, the amount given for August 25 being those still out from all issues prior to that date. After that date the amount gradually and regularly increased from £21,535,064.5 on August 25 to £38,478,164 on December 30. It is to be observed that the amounts do not indicate the aggregate issues up to the dates given but merely the net amounts outstanding. By January 13, the last date included in the accompanying tables, there had been issued a total of £74,244,685, but £37,039,606 had been canceled, leaving £37,205,079.5 still outstanding. A slight reduction in the amounts still out is to be observed on January 6 and January 13, leaving, however, a total still in excess of that for December 16. This decrease is slight and may be due to one or both of two influences. There may be a decrease in the demand for the notes and a consequent contraction in the issues, or there may have been an unusually heavy demand for notes to finance the ordinary year-end operations. The latter is apparently the case, as is shown by the following detailed statement of issues and cancellations:

	Notes Issued	Notes Canceled
	£	£
Week of Dec. 16	2,507,250	1,948,341
" " " 23	3,977,500	1,596,722
" " " 30	1,487,000	1,472,103
" " Jan. 6	1,409,500	1,916,551
" " " 13	1,266,000	2,032,033

This summary shows a heavy demand for the notes through the week of December 23, a demand which has since been decreasing each

TABLE I

Currency Notes Account

Date	Notes Outstanding	Advances to			Redemption Account			
		Scottish and Irish Banks	Other Banks	Savings Banks	Coin and Bullion	Ratio to Notes	Government Securities	Balance at Bank of England
	£	£	£	£	£	Per cent	£	£
Aug. 25	21,535,064.5	230,000	6,071,650	3,810,000	....	....	....	11,423,414.5
Sept. 2	25,156,486	230,000	3,532,700	4,550,000	....	....	10,923,546	5,920,240
9	27,113,127.5	100,000	1,486,700	4,600,000	3,000,000	11.1	10,923,546	7,002,881.5
16	27,416,931.5	....	1,514,200	3,600,000	3,500,000	12.8	10,923,546	7,879,186.5
23	27,721,394	....	1,159,200	3,600,000	4,000,000	14.4	10,923,546	8,038,648
30	28,408,605.5	....	381,500	3,500,000	4,500,000	15.8	10,923,546	9,103,559.5
Oct. 7	29,272,795.5	....	331,500	2,750,000	5,000,000	17.1	11,923,546	9,267,749.5
14	29,743,029	....	260,500	2,250,000	5,500,000	18.5	13,923,546	7,808,983
21	30,275,936	....	245,000	2,250,000	8,500,000	28.1	13,923,546	5,357,390
28	31,366,690.5	....	265,000	1,900,000	9,500,000	30.3	13,923,546	5,778,144.5
Nov. 4	32,934,442	....	334,000	1,600,000	10,500,000	31.9	13,923,546	6,576,866
11	33,678,952	....	244,000	700,000	11,500,000	34.1	13,923,546	7,311,406
18	33,890,384	....	244,000	700,000	12,500,000	36.8	13,923,546	6,522,838
25	34,134,482.5	....	239,000	700,000	13,500,000	39.6	13,923,546	5,771,936.5
Dec. 2	34,501,386	....	219,000	600,000	14,500,000	42.0	13,923,546	5,258,840
9	35,523,580.5	....	219,000	600,000	15,500,000	43.7	16,923,546	2,281,034.5
16	36,082,489.5	....	169,000	600,000	16,500,000	45.7	16,923,546	1,889,943.5
23	38,463,267	....	169,000	600,000	17,500,000	45.5	16,923,546	3,270,721
30	38,478,164	....	169,000	600,000	18,500,000	48.1	9,923,546	9,285,618
Jan. 6	37,971,113	....	164,000	200,000	19,500,000	51.4	14,923,546	3,183,567
13	37,205,079.5	....	154,000	200,000	20,500,000	55.1	14,923,546	1,427,533.5

week. On the other hand, cancellations declined during the period of increased issues but have grown larger again since the first of the year. This suggests that there is as yet no permanent decrease in the use of the notes and that there has been (up to January 13) a steady regular increase.

This at once raises a question. Are these notes to be viewed as emergency issues or is there taking place a permanent change in the English monetary system? In the United States we also faced the necessity of supplementing our supply of money and issued the emergency circulation authorized by the Aldrich-Vreeland act. It has proved to be such in fact as well as in name. The emergency being over, we are retiring the notes. The situation in England to date seems different. Either the emergency is more prolonged than with us or the notes are to become a permanent part of the monetary system of the country. The advantages of a paper money over metallic are obvious, and there are strong arguments for replacing the gold in circulation with a medium of exchange that is more economical if not protected by a 100 per cent gold reserve or one which, if such a reserve is held, will place the gold itself in the possession of the Bank of England or the government. A similar substitution has in recent years been taking place in other countries of Europe[1] and may perhaps occur also in England. The extent to which this has happened to date and the manner in which it is being conducted are to be determined by an analysis of the other columns of Table I.

Advances of these notes have been made to three classes of banks. To the Scottish and Irish banks the amounts were small, the maximum being £230,000 as of September 2, the total amounts being repaid by September 16. Since that date there have been no advances to this group of institutions. Advances to the savings banks, including both the Post-Office Savings Bank and the trustee savings banks, were at their maximum on September 9. At that date the amount was £4,600,000, of which £3,250,000 was to the Post-Office Savings Bank and £1,350,000 to the trustee savings banks. Although the former had received much the larger amount,

[1] For a description of this see an article entitled "Currency Policy and the European War," by Charles A. Conant, in the *Journal of Political Economy*, October, 1914.

it repaid the advances much more rapidly, having settled in full by November 11, all of the £700,000 reported on that date being due from the trustee savings banks. By January 13 this had been reduced to £200,000, where it has remained.

"Other banks" received much larger sums, the maximum amount of £6,071,650 appearing on August 25. This has been rapidly reduced, until on January 13 the amount was £154,000. Banks of all classes to whom advances have been made are thus responsible at the present time for only £354,000 of the £37,205,-079.5 of the notes outstanding.

Students of monetary history scarcely need to be reminded of the dangers attending the issue of government notes. French experiences with the *assignats*, American Colonial paper currency, the paper of the Southern Confederacy, and the "greenbacks" are among the best-known illustrations of the temptation to excessive issues and the possibility of resorting to a suspension of specie payments. So disastrous have been past experiences that the methods adopted by England cannot fail to be of interest.

An examination of the last four columns of Table I will show the situation to date. Under the general heading "Redemption Account" are given the three forms of security behind the issues for which the banks are no longer liable, i.e., coin and bullion, government securities, and balance at Bank of England. These may be examined in reverse order.

As the banks made settlement in the manner described above, the amounts paid in were merely transferred to the government's account at the Bank of England. On August 25 this balance was £11,423,414.5, but was reduced the next week to £5,920,240. Since that time it has fluctuated from week to week, never falling below £5,000,000, however, until December 9 when it was reported as £2,281,034.5. On December 16, a week later, it was £1,889,-943.5. An increase to £9,285,618 is to be observed on December 30, followed by a decline to £1,427,533.5 on January 13. This last amount is the smallest balance at the Bank of England on this account since August 25, the first date for which we have information. The close relationship between the government and the bank (although the latter is, of course, not owned by the government)

makes such an arrangement entirely proper. A government balance on this account would probably not be subject to criticism even though many times the size of any that have been held, nor would such a balance be a poor security for a note issue of the moderate size of the one we are discussing.

The column headed "Government Securities," however, is very different. Just what these securities are has not been made entirely clear, but they may include some of the Treasury bills which have been issued from time to time since the outbreak of the war or advances to the government may have been made from this fund with even less formality.[1] Apparently the need for funds has led the government to transfer its obligations to the "Redemption Account," securing the needed money by drawing down its balance at the Bank of England. Government promises to pay had been issued to the banks in return for a lien by the government on the assets of the banks. Liabilities of the banks to the government were thus created and have since been settled almost in full by a transfer of balance at the Bank of England to the government's account. Instead of retaining these balances as an asset against the notes that are still in the hands of the public the government has drawn upon them in order to market some of its other liabilities.

In other words, the government's liability for the notes has as part security another government liability. This item first appeared in the statement of September 2 as £10,923,546. There was added £1,000,000 by October 7, £2,000,000 more by October 14, and another £3,000,000 by December 9, the total on that date being £16,923,546. On December 30 this dropped to £9,923,546, a decrease of £7,000,000. Apparently funds had been secured in sufficient quantity (presumably through the large government loan floated at the time) to make possible the cancellation of some of the Treasury bills that were held in this account. This view is borne out by the increase of the balance at the Bank of England from £3,270,721 on December 23 to £9,285,618 on December 30. However, this situation did not continue. By January 6, only one week later, the amount of "Government Securities" was £14,923,546,

[1] That this has been done has been asserted by no less an authority than J. M. Keynes, in the *Economic Journal*, September, 1914 (both text and footnote).

an increase of £5,000,000 which largely offset the decrease of the preceding week. Fiscal needs were evidently urgent and this fund was again used. On August 25 the £21,535,064.5 of notes outstanding were protected in full by balances at the Bank of England and by claims on the assets of the banks to whom advances had been made. Although in form government promises to pay, they were essentially bank liabilities (with a government guaranty) because of the government's claims on the banks mentioned. One week later £10,923,546, or over 43 per cent of the security for the £25,156,486 notes then outstanding, was another government liability, leaving less than 57 per cent protected by the other assets then listed. On December 9 the £16,923,546 of government securities held were over 47 per cent of the £35,523,580.5 notes outstanding, leaving less than 53 per cent protected by other assets, while on January 13 government securities were over 40 per cent and other assets slightly less than 60 per cent.

The last of the items in the redemption account is "Coin and Bullion." This fund has been created by "earmarking" gold at the Bank of England for the currency-notes account. Beginning with £3,000,000 on September 9, this gold reserve has steadily grown, until on January 13 it was £20,500,000. At first only 11.1 per cent of the outstanding notes, it was, at the time of the last statement, 55.1 per cent. If this reserve continues to grow at the rate of £1,000,000 each week and the note issues grow less rapidly, it is evident that any danger of excessive issues will be eliminated. At present the amount of gold held in this account is a much larger percentage of the outstanding notes than our $150,000,000 gold reserve is of our issue of greenbacks, the latter being about 43 per cent.

Viewing the currency notes account as it is presented in Table I, we find the situation is very encouraging. Although the note issues have grown and are still growing, the gold held behind them has increased until it is now held in an amount sufficient to justify confidence in the ability of the government to redeem the notes as presented. The account may be presented, however, in another form that is not quite so encouraging although by no means a cause for alarm. The advantage in the statements as given in Tables II

and III is in their greater accuracy. Table I (which has been copied from the *London Economist*) is entirely correct, but conveys a wrong impression as to the nature of the assets and the changes that have been taking place.

TABLE II

CURRENCY NOTES ACCOUNT (*Continued*)

Date	Assets					
	Due from Banks		Coin and Bullion		Government Securities	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	£		£		£	
Aug. 25	21,535,064.5	100.0	....	....	....	....
Sept. 2	14,232,940	56.5	....	....	10,923,546	43.5
9	13,189,581.5	48.6	3,000,000	11.1	10,923,546	40.3
16	12,993,386.5	47.3	3,500,000	12.8	10,923,546	39.9
23	12,797,848.0	46.1	4,000,000	14.4	10,923,546	39.5
30	12,985,059.5	45.7	4,500,000	15.8	10,923,546	38.5
Oct. 7	12,349,249.5	42.1	5,000,000	17.1	11,923,546	40.8
14	10,319,483.0	34.6	5,500,000	18.5	13,923,546	46.9
21	7,852,390.0	25.9	8,500,000	28.1	13,923,546	46.0
28	7,943,144.5	25.3	9,500,000	30.3	13,923,546	44.4
Nov. 4	8,510,866.0	25.8	10,500,000	31.9	13,923,546	42.3
11	8,255,406.0	24.5	11,500,000	34.1	13,923,546	41.4
18	7,466,838.0	22.0	12,500,000	36.8	13,923,546	41.2
25	6,710,936.5	19.6	13,500,000	39.6	13,923,546	40.8
Dec. 2	6,077,840.0	17.5	14,500,000	42.0	13,923,546	40.5
9	3,100,034.5	8.7	15,500,000	43.7	16,923,546	47.6
16	2,658,943.5	7.3	16,500,000	45.7	16,923,546	47.0
23	4,039,721	10.5	17,500,000	45.5	16,923,546	44.0
30	10,054,618	26.1	18,500,000	48.1	9,923,546	25.8
Jan. 6	3,547,567	9.3	19,500,000	51.4	14,923,546	39.3
13	1,781,533.5	4.7	20,500,000	55.1	14,923,546	40.2

Table II arranges the assets in three groups and indicates for the various dates the amount of each and the percentage that it bears to the total. It will be noticed that the amounts due from banks (which include both the banks to which notes have been issued and the Bank of England) have been declining. Starting at 100 per cent on August 25, it shrank to 7.3 per cent by December 16, rose to 26.1 per cent by December 30, and fell again to 4.7 per cent by January 13. From time to time the banks have repaid the amounts advanced to them. These repayments credited to the account of the government on the books of the Bank of England have then been used in two ways. Beginning with the week ending September 9, gold has been "earmarked" for the currency notes

account, viz., it has been segregated and thus made unavailable for any other use than the redemption of the notes. The fiscal needs of the government have, however, been so heavy that the balance at the bank has been used also to meet needs for current funds. It was remarked above that the notes as originally issued, although in form promises of the government, were essentially bank notes with a government guaranty, as there were bank assets behind these notes up to 100 per cent of their amount in the form of claims on the Bank of England and the various banks to which advances had been made. The fundamental character of these notes has thus undergone a complete change. Now they are secured only up to 4.7 per cent of their amount by liabilities of banks, the remaining 95.3 per cent of the security being in another form.

There is repeated in Table II the column "Coin and Bullion" as given in Table I, and also "Government Securities." For the latter (which it will be remembered is a liability of the government although listed as an asset to protect the currency notes) there is here given a statement of the percentage which the amounts of these securities bear to the notes outstanding. On September 2 this was 43.5 per cent. As the government's account at the Bank of England was increased and larger amounts of gold were "earmarked" for the currency-notes account, this percentage declined, only to increase when, on October 7 and October 14, the amount of securities was increased. Again there was a decline, until on December 9 an increase of £3,000,000 in securities raised it to 47.6 per cent. This was the highest point attained and was followed by a drop to 25.8 per cent on December 30, only to rise to 40.2 per cent by January 13. It will be observed that this figure is practically the same as that of September 9, the general change since that date being the transformation of a large part of "Due from Banks" into "Coin and Bullion."

Opinions as to the changes that are here pictured will vary. The gold reserve behind the notes has increased both absolutely and relatively, but this has been accompanied by a more than corresponding decrease in the amount due from banks which has dropped from 100 per cent on August 25 and 56.5 per cent on September 2 to 4.7 per cent on January 13. The two combined were 59.7

per cent on September 9 with government securities 40.3 per cent. Slightly over four months later, on January 13, the two were 59.8 per cent and government securities were 40.2 per cent.

Still another and better way to picture the situation is the method used in Table III. The notes and the government securities are both government liabilities and are presented as such in the first two columns, with their total in the third column.[1] Against these liabilities, which increased from £21,535,064.5 on August 25 to £55,386,813 on December 23 and were still £52,128,625.5 on January 13, there is placed the sum of two groups of assets, i.e., coin and bullion, and accounts due from banks (including the Bank of England account). The amounts of each of these with their ratio to the total liabilities assumed, and their total, with its ratio to these liabilities, are given under the general heading "Assets." The coin and bullion has grown from nothing to £20,500,000, or 39.3 per cent, a ratio less complimentary than the 55.1 per cent given in Tables I and II. The amount due from banks has during the same period declined from £21,535,064.5 to £1,781,533.5, or from 100 per cent to 3.4 per cent. The total assets dropped from the same amount—£21,535,064.5 on August 25 to £14,232,940 on September 2. After that date the amount gradually and quite regularly increased until it reached £21,539,721 on December 23. Then it rose sharply to £28,554,618 because of the decline in government securities and the accompanying increase in the balance at the Bank of England. Another decline has followed owing to the increase in government securities and the decline in the Bank of England balance.

It is necessary to refer to the last column, which gives the ratio between total assets and the total liabilities, to appreciate the real situation. A glance down the column shows a sharp drop from 100 per cent to 39.4 per cent, then minor movements up and down until at present the ratio is 42.7 per cent. The sharp increase on December 30 has already been explained and was followed at once by a drop to which we have also made reference. The present

[1] The fairness of thus combining them is dependent on the truthfulness of assuming that advances to the government are for current obligations. This seems entirely proper in view of the statement by Mr. Keynes already mentioned.

TABLE III

CURRENCY NOTES ACCOUNT (*Continued*)

Date	Liabilities			Assets					
	Notes Outstanding	Government Securities	Total Liabilities	Coin and Bullion		Due from Banks		Total	
				Amount	Percentage to Total Liabilities	Amount	Percentage to Total Liabilities	Amount	Percentage to Total Liabilities
	£	£	£	£		£		£	
Aug. 25	21,535,064.5	....	21,535,064.5	....	....	21,535,064.5	100.0	21,535,064.5	100.0
Sept. 2	25,156,486	10,923,546	36,080,032.0	....	....	14,232,940	39.4	14,232,940	39.4
9	27,113,127.5	10,923,546	38,036,673.5	3,000,000	7.8	13,189,581.5	34.6	16,189,581.5	42.4
16	27,416,931.5	10,923,546	38,340,477.5	3,500,000	9.1	12,993,386.5	33.8	16,493,386.5	42.9
23	27,721,394	10,923,546	38,644,940	4,000,000	10.3	12,797,848	33.1	16,797,848	43.4
30	28,408,605.5	10,923,546	39,332,151	4,500,000	11.4	12,985,059.5	33.0	17,485,059.5	44.4
Oct. 7	29,272,795.5	11,923,546	41,196,341.5	5,000,000	12.1	12,349,249.5	29.9	17,349,249.5	42.0
14	29,743,029	13,923,546	43,666,575	5,500,000	12.6	10,319,483	23.6	15,819,483	36.2
21	30,275,936	13,923,546	44,199,482	8,500,000	19.2	7,852,390	17.7	16,352,390	36.9
28	31,366,690.5	13,923,546	45,290,236.5	9,500,000	20.9	7,943,144.5	17.5	17,443,144.5	38.4
Nov. 4	32,934,442	13,923,456	46,857,988	10,500,000	22.4	8,510,866	18.1	19,010,866	40.5
11	33,678,952	13,923,546	47,602,498	11,500,000	24.1	8,255,406	17.3	19,755,406	41.4
18	33,890,384	13,923,546	47,813,930	12,500,000	26.1	7,466,838	15.6	19,966,838	41.7
25	34,134,482.5	13,923,546	48,058,028.5	13,500,000	28.0	6,710,936.5	13.9	20,210,936.5	41.9
Dec. 2	34,501,386	13,923,546	48,424,932	14,500,000	29.9	6,077,840	12.5	20,577,840	42.4
9	35,523,580.5	16,923,546	52,447,126.5	15,500,000	29.5	3,100,034.5	5.9	18,600,034.5	35.4
16	36,082,489.5	16,923,546	53,006,035.5	16,500,000	31.1	2,658,943.5	5.0	19,158,943.5	36.1
23	38,463,267	16,923,546	55,386,813	17,500,000	31.5	4,039,721	7.2	21,539,721	38.7
30	38,478,164	9,923,546	48,401,710	18,500,000	38.2	10,054,618	20.7	28,554,618	58.9
Jan. 6	37,971,113	14,923,546	52,894,659	19,500,000	36.8	3,547,567	6.7	23,047,567	43.5
13	37,205,079.5	14,923,546	52,128,625.5	20,500,000	39.3	1,781,533.5	3.4	22,281,533.5	42.7

ratio is about the same as on September 9 and 16, October 7, and December 2.

In other words, as the weeks have passed no permanent change has occurred in the ratio between assets and liabilities. The change has been (1) in the character of the notes which were at first essentially bank notes (with a government guaranty) but are now government promises to pay with a very slight amount of bank assets as security, and (2) in the gradual accumulation of coin and bullion in the place of "Due from Banks."

It is not to be concluded that there is cause for alarm in the situation thus pictured. The Treasury Department has found it necessary to draw on the government balances at the Bank of England to an amount that is now £14,923,546. Needless to say, such a method of raising funds would, if indefinitely continued, jeopardize the entire arrangement. Accompanying this unfortunate, but perhaps unavoidable, practice, there has been a growth, slow but steady, in the amount of "earmarked" gold. Week after week this account has been increased and is now over 39 per cent of the total liabilities. In absolute amount the gold fund grew less rapidly from September 2 to December 23 than did the total liabilities, the former increasing £14,500,000 and the latter over £17,000,000. If we compare September 2 with January 13 we find an increase of £17,500,000 in the former and £14,000,000 in the latter.

The future of the currency notes will be determined by the exigencies of the Exchequer and by the decision as to their proper function in the English monetary system. Assuming that heavy drains on the account to secure Treasury funds will not again be necessary, several possibilities appear. The notes may be treated as an emergency issue and retired as promptly as possible. As yet there is no evidence of any intention to do this, but it would probably be accomplished by increasing the amount of "earmarked" gold. If the notes are retained as a permanent part of the circulation, they may be protected in one of two ways.

The first method is to increase the coin and bullion from the present 55.1 per cent to 100 per cent of the notes outstanding, the government securities being withdrawn from this account. The currency notes would then become warehouse receipts for

gold, different in form, but similar in nature to the United States gold certificates.

A second solution would be to determine upon a reserve that it seems wise to retain against them and hold that sum in gold as we hold $150,000,000 against our $346,681,016 of greenbacks. Such a plan would make them like our greenbacks.

A third possibility is to protect them as the Dominion notes of Canada are protected. These notes prior to the outbreak of the European war were protected up to $30,000,000 by 15 per cent gold and 85 per cent Dominion bonds. Above the $30,000,000 limit the protection was 100 per cent gold. This limit was changed in August, 1914, to $50,000,000 against which there must be a 25 per cent gold reserve.

Prophecies regarding the method that may be used would be idle, but it will be interesting to observe the outcome. For years we have been urging that a government should not confuse its fiscal and monetary functions. England has issued government notes in return for a lien on bank assets but has been gradually changing them into simple government promises protected by a gradually increasing gold reserve which is now over 55 per cent of the notes but less than 40 per cent of the total liabilities that have been created. Such a procedure is dangerous. If England does not solve the problem satisfactorily, her experience will add another to the numerous warnings of history against such a practice.

ADDENDUM

As this goes to press it becomes possible to include data not available earlier. The currency notes account for January 20 and 27, February 3, and February 10 is as follows, the table being merely a continuation of Table I above.

TABLE I (*Continued*)

Date	Notes Outstanding	Advances to Banks	Redemption Account			
			Coin and Bullion	Ratio to Notes	Government Securities	Balance at Bank of England
	£	£	£	Per cent	£	£
Jan. 20	36,026,841.5	154,000	21,500,000	59.7	13,923,546	449,295.5
27	35,409,143	154,000	22,500,000	63.6	11,923,546	831,597
Feb. 3	35,829,696	149,000	23,500,000	65.6	10,923,546	1,257,150
10	36,102,858	144,000	24,500,000	67.9	10,923,546	535,312

An examination of this table shows that the decline in the aggregate amount of notes outstanding continued until January 27 and then increased slightly on February 3 and 10. The savings banks have repaid in full all advances and the other banks have reduced their liabilities to £144,000. "Earmarked" gold has increased £1,000,000 each week to an aggregate of £24,500,000 and is now 67.9 per cent of the outstanding notes. Government securities have been reduced to £10,923,546, the amount that was held from September 2 to September 30 inclusive. The balance at the Bank of England fell to £449,295.5 on January 20, the lowest amount thus far recorded, increased to £1,257,150 by February 3, only to fall to £535,312 on February 10. It is very evident that the general situation is at the present time improving, a conclusion that is confirmed when we examine the next table which is a continuation of Table II above.

TABLE II (*Continued*)

Date	Assets					
	Due from Banks		Coin and Bullion		Government Securities	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	£		£		£	
Jan. 20	603,295.5	1.6	21,500,000	59.7	13,923,546	38.7
27	985,597	2.7	22,500,000	63.6	11,923,546	33.7
Feb. 3	1,406,150	3.9	23,500,000	65.6	10,923,546	30.5
10	679,312	1.8	24,500,000	67.9	10,923,546	30.3

"Due from Banks" (which includes "Other Banks" and Bank of England) declined on January 20 to £603,295.5 or 1.6 per cent of the outstanding notes, by February 3 was £1,406,150 or 3.9 per cent, and then fell to £679,312 or 1.8 per cent. Government securities decreased from £13,923,546 or 38.7 per cent to £10,923,546 or 30.3 per cent during the same period.

Grouping the facts again as in Table III above we have:

TABLE III (*Continued*)

Date	Liabilities		
	Notes Outstanding	Government Securities	Total Liabilities
	£	£	£
Jan. 20	36,026,841.5	13,923,546	49,950,387.5
27	35,409,143	11,923,546	47,332,689
Feb. 3	35,829,696	10,923,546	46,753,241
10	36,102,858	10,923,546	47,026,404

Date	Assets					
	Coin and Bullion		Due from Banks		Total	
	Amount	Percentage to Total Liabilities	Amount	Percentage to Total Liabilities	Amount	Percentage to Total Liabilities
	£		£		£	
Jan. 20	21,500,000	43.4	603,295.5	1.2	22,103,295.5	44.6
27	22,500,000	47.5	985,597	2.0	23,485,597	49.5
Feb. 3	23,500,000	50.2	1,406,150	3.0	24,906,150	53.2
10	24,500,000	52.1	679,312	1.4	25,179,312	53.5

Combining outstanding notes and government securities to secure total liabilities we find that this sum has continued to decline until it was £46,753,-241 on February 3, the lowest level since October 28. It then rose to £47,-026,404 on February 10 because of the increase in outstanding notes, the government securities remaining the same. On the assets side, coin and bullion have grown to 52.1 per cent of total liabilities, while the amount due from banks, which fell to 1.2 per cent on January 20 and rose to 3 per cent, has again fallen to 1.4 per cent. The total amount of assets has grown to 53.5 per cent of the total liabilities. This last percentage is the highest attained with the exception of August 25 when it was 100 per cent, and December 30 when it was 58.9 per cent. The last few weeks have seen a definite improvement, but it is, of course, too early to express any opinion as to the final outcome. The latest information indicates that the note issues have again begun to increase and that the rapid increase in total assets as compared to total liabilities has suffered a check.

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